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Ref: EFRAG's consultation on its Exposure Draft on the ESRS for Listed SMEs

Dear Mr de Cambourg,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the EFRAG public consultation on the Exposure Draft (ED) for the European Sustainability Reporting Standard (ESRS) for listed small- and medium-sized entities (ESRS LSME). We are pleased to provide the following feedback on the content of the ED.

ESMA's mandate on corporate sustainability reporting includes contributing to the standard setting process for the ESRS. ESMA is following closely the work of EFRAG as technical advisor to the European Commission (EC) in the sustainability reporting field. ESMA is an official observer of both EFRAG's Sustainability Reporting Technical Expert Group and Board, and it is required by the Corporate Sustainability Reporting Directive (CSRD) to deliver an opinion to the EC on the draft ESRS developed by EFRAG.

ESMA has assessed the proposed requirements in the ED taking into account whether they are conducive to investor protection based on the criteria in ESMA's opinion framework on ESRS¹, while giving due consideration to the principle of proportionality to properly reflect the nature, scale and complexity of the risks inherent in the business of the undertaking concerned by the draft ESRS LSME.

ESMA notes that the SMEs addressed by the EFRAG ED are those listed on European regulated markets. Under EU law, these are markets where listed entities – irrespective of their size – are required to abide to the highest standards in terms of investor protection. ESMA highlights that regulated markets do not include SME growth markets² which are a subset of multilateral trading facilities which are subject to less stringent regulatory obligations aiming at facilitating the access to trading by smaller and less structured entities.

¹ [ESMA32-334-589](#) - Opinion of the European Securities and Markets Authority of 26 January 2023 on the technical advice by the European Financial Reporting Advisory Group on European Sustainability Reporting Standards (Set 1).

² Article 33 of MiFID II introduced the new category of Multilateral Trading Facilities labelled SME Growth Markets establishing the conditions to register under this label.

ESMA therefore believes that EFRAG had to strike a difficult balance between properly addressing proportionality concerns and ensuring that the sustainability reporting by listed SMEs in regulated markets remains relevant and consistent with the reporting of larger entities that operate on the same public markets. It is important to highlight that investors active on regulated markets expect the same level of transparency and reliability of all players operating on these markets irrespective of their size also considering that SMEs which have sought a listing on regulated markets instead of an SME Growth Market have opted into the most stringent regime.

Against this background, ESMA believes that the proposed ESRS requirements for listed SMEs adequately strike the balance between proportionality and investor protection considerations, subject to targeted changes that ESMA suggests EFRAG to consider in relation to the disclosure of positive impacts and opportunities linked to sustainability matters.

ESMA concurs with EFRAG's assessment that the CSRD puts more emphasis on opportunities for large issuers than for listed SMEs. Nevertheless, the CSRD requires all entities, irrespective of their size, to provide information necessary to understand sustainability risks and impacts, without specifying whether these are positive or negative. ESMA therefore suggests that EFRAG considers a proportionate approach to still ensure that some information on positive aspects is required to be disclosed by listed SMEs. In our view, this would be important in the context of preventing greenwashing. There is, in fact, a risk that positive claims on sustainability impacts and opportunities will be presented outside of the sustainability statement and therefore they will not be subject to assurance and compliance with specific reporting requirements. Similar considerations apply to the approach to the disclosure of opportunities stemming from material sustainability matters and for which EFRAG could consider at least some mandatory disclosures in relation to the identified material opportunities as part of the undertaking's materiality assessment.

Furthermore, ESMA recommends that, in finalising the ESRS LSME, EFRAG takes due consideration of the objective of international interoperability which is as important for large issuers as it is for SME issuers. In our view, limiting the efforts that SMEs will have to make when explaining to international investors any divergence with international sustainability standards is one important aspect of making sure that the ESRS LSME is proportionate.

More detailed answers to a selection of the questions asked in the consultation document are provided in the Appendix to this letter. Should you have questions or comments, please contact Isabelle Grauer-Gaynor, Head of the Corporate Finance and Reporting Unit (isabelle.grauer-gaynor@esma.europa.eu) or Evert van Walsum, Head of the Investor Protection and Sustainable Finance Department (evert.vanwalsum@esma.europa.eu).

Yours sincerely,

[Signed]

Verena Ross

Appendix – Detailed response to selected consultation questions

Question 1: Do you agree with the approach adopted to develop LSME ED as a simplification of the content of ESRs Set 1?
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1. As set out in Recital 21, the CSRD foresees that listed SMEs are required to prepare a sustainability statement for investor protection purposes as well as to help ensure that financial market participants can include these undertakings in investment portfolios and that they also have the information they need to be able to comply with their SFDR reporting obligations. At the same time, the CSRD envisages that listed SMEs '*should be given the possibility of reporting in accordance with standards that are proportionate to their capacities and resources, and relevant to the scale and complexity of their activities*' (*ibidem*).
2. The 'decision tree' developed by EFRAG to determine the scope of the simplifications seems to properly address the objectives that the CSRD has assigned to the ESRs for listed SMEs. ESMA notes that further clarity may be needed to explain in the basis for conclusions of the final draft standard the relative weight that the investor protection aspects have played in proposing the requirements for listed SMEs vis-à-vis the proportionality considerations that may equally apply to both listed and non-listed SMEs. In this respect, the clarifications already included in the basis for conclusions for the ED on the voluntary SME standard (paras BC23-BC25) could be added to the basis for conclusions of the final draft standard for listed SMEs.
3. ESMA therefore generally supports the approach proposed in the Exposure Draft (ED) to implement the CSRD requirements in relation to reporting standards for small and medium-sized undertakings whose securities are admitted to trading on a regulated market in the Union (hereinafter 'listed SMEs') with a few caveats which are set out in the following paragraphs.
4. Firstly, in ESMA's view, one aspect of the proposals which we suggest to further assess is the choice to limit the focus of the mandatory disclosures on adverse impacts and to entirely exclude mandatory disclosures on positive impacts. In this respect, ESMA notes that the text of the new Article 19a of the Accounting Directive, as introduced by the CSRD, does not mention either for large undertakings or for listed SMEs a requirement to disclose positive impacts. According to this Article, the disclosure of large undertakings "*shall contain*", amongst other elements, the information on adverse impacts and that the listed SMEs "*may limit*" their disclosures, amongst other information, to adverse impacts.
5. ESMA questions whether by interpreting this limitation in a very restrictive way – so to entirely exclude mandatory disclosure on positive impacts – the ESRs for listed SMEs would cater for the objective of investor protection and be compliant with the general requirement set out in paragraph 1 of Article 19a according to which any (large, medium

or small) undertaking (emphasis added): "shall include in the management report information necessary to understand the undertaking's impacts on sustainability matters". This general provision, in fact, does not distinguish between positive or negative impacts.

6. While understanding and supporting the need to set proportionate requirements for listed SMEs, ESMA is concerned about the possible negative consequences that may occur if the ESRS for listed SMEs envisage reporting on positive impacts only on a voluntary basis. In fact, this approach may ultimately *nudge* listed SMEs to disclose information about positive impacts outside the sustainability statement with the result that this information would not be subject to external assurance. We recommend EFRAG to consider that this approach may negatively affect the level of investor protection and make the fight against *greenwashing* more difficult.
7. Against this background, it would be difficult to justify a substantially different treatment of disclosures on positive impacts in the standard for listed SMEs compared to the ESRS for large undertakings. Nevertheless, as further explained in paragraph 10, ESMA supports the need to find a proportionate compromise to meet the specificities of listed SMEs.
8. On a similar note, it may be worthwhile assessing whether not only positive impacts linked to sustainability, but potentially also opportunities should be reconsidered as part of the mandatory disclosures, at least at an aggregated level. ESMA acknowledges that the co-legislators took the "explicit decision" of not requiring specific disclosures of opportunities for the ESRS on listed SMEs as opposed to the requirements for large undertakings. Nevertheless, it may be more balanced for an SME when conducting its materiality assessment to cover both risks and opportunities rather than forcing a single-sided assessment of materiality. Furthermore, including opportunities would improve the interoperability with ISSB standards. Lastly, similar considerations with regards to greenwashing as set out in paragraph 7 would also potentially apply to the lack of mandatory disclosures on opportunities.
9. Therefore, ESMA suggests that EFRAG considers an alternative compromise. For example, while retaining the voluntary disclosure of detailed information about positive impacts, the ESRS for listed SMEs in Disclosure Requirement no. 7 could still require a concise depiction of material positive impacts in the materiality assessment. Similarly, opportunities could be disclosed at aggregated level as part of the materiality assessment, while envisaging more detailed disclosures on a voluntary basis.
10. Secondly, ESMA notes that further clarity may be needed to further explain in the basis for conclusions of the final draft standard the relative weight that the investor protection aspects have played in proposing the requirements for listed SMEs vis-à-vis the proportionality considerations that may equally apply to both listed and non-listed SMEs. In this respect, the clarifications already included in the basis for conclusions for the ED on the voluntary SME standard (paras BC23-BC25) could be added to the basis for conclusions of the final draft standard for listed SMEs.

11. Lastly, targeted comments on the simplifications proposed in relation to the architecture of the draft ESRS for listed SMEs, the definitions and methodologies are set out in the respective responses to questions in part B of the questionnaire.
12. Incidentally, we note that it will be necessary to update the size criteria as listed in the draft standard and in the addendum to the basis for conclusion of the ED as these do not reflect the amendments based on the Commission Delegated Directive (EU) 2023/2775 of 17 December 2023.

Question 2: Do you agree with this approach on EU datapoints?

13. ESMA generally supports the proposed approach for the inclusion of the EU datapoints in the draft ESRS for listed SMEs as this approach is aligned with the requirements in the CSRD, supports the objective of enabling listed SMEs to be included in investment portfolios and caters for the information needs of financial market participants when fulfilling their disclosure obligations under the SFDR.
14. Given that the draft ESRS for listed SMEs has mirrored the materiality approach to the EU datapoints already included in the delegated act on the ESRS Set 1, it is important to retain, as proposed in par. 54 of the ED, the table indicating all the datapoints deriving from other European legislation, with the indication of their location, including those which are deemed not to be material.

Question 3: Do you agree with the approach on interoperability with ISSB and GRI standards?

15. ESMA considers that it is important not to contrast the objectives of investor protection and proportionality with the objectives of maintaining interoperability with ISSB and GRI requirements. In ESMA's view, one aspect of ensuring that the reporting standards are proportionate is to preserve their interoperability with international requirements given that pathways often sought by SMEs for their growth is through operating on international markets.
16. The new Article 29c of the Accounting Directive, as introduced by the CSRD, addresses the reporting standards for listed SMEs. This article cross-refers to certain provisions contained in the Article 29b of the Accounting Directive setting out general requirements for the ESRS for large undertakings.
17. Amongst those, two requirements are particularly relevant with respect to the question of interoperability:
18. Paragraph 2 of Article 29b indicates that (emphasis added): "The sustainability reporting standards shall avoid imposing a disproportionate administrative burden on

undertakings, including by taking account, **to the greatest extent possible**, of the work of global standard-setting initiatives for sustainability reporting as required by point (a) of paragraph 5".

19. Point (a) of paragraph 5 of the same article further indicates that (emphasis added): "When adopting delegated acts pursuant to paragraph 1, the Commission shall, **to the greatest extent possible, take account of: (a) the work of global standard-setting initiatives for sustainability reporting**, and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development".
20. Interestingly, the CSRD seems to indicate an important role of interoperability with international standards in the ESRS standard-setting not only for large undertakings, but also for the listed SMEs. ESMA notes that listed SMEs, through their presence on regulated markets, are potential investees for investors operating globally and therefore they may be confronted with additional reporting burden if their mandatory ESRS reporting does not fulfil the comparability and information needs of these investors.
21. ESMA also notes that the CSRD requirement for alignment with international standard setting initiatives in the CSRD is not expressed in absolute terms, but it requires to take into account these initiatives "*to the greatest extent possible*".
22. In ESMA's view, the justification set out in the basis for conclusions of the ED to de facto minimise the alignment with the ISSB standards does not seem to comply with the CSRD requirement to align as much as possible the respective disclosure requirements. Paragraph BC32 (b) of the basis for conclusions in fact indicates that: "*the SR TEG and SRB noted the explicit decision in the CSRD not to cover financial opportunities. Considering this important deviation, trying to pursue alignment on other points would be disproportionate (i.e., would impair the possibility of further simplification of the standard) and not yield concrete benefits, as missing the opportunities in the requirements would anyway impair the alignment. In conclusion, the Legislator has made a conscious decision to prioritise simplification over alignment with ISSB-IFRS for the LSME*". ESMA highlights that, while taking the "explicit decision" of not requiring disclosures of opportunities for the ESRS on listed SMEs, the co-legislators still required alignment with international initiatives to the greatest, rather than the minimum, extent possible also for the ESRS for listed SMEs.
23. ESMA therefore recommends that EFRAG further assesses the approach to the interoperability with ISSB and GRI standards proposed in the ED to take into account the interplay between the need for proportionality, that is a fundamental characteristic in the ESRS for listed SMEs, and the potential complexities of reducing interoperability with ISSB and GRI standards.
24. In order to confirm the ED proposal, this assessment should ideally show that dropping selected datapoints that are necessary for the alignment with ISSB and GRI standards is strictly instrumental to achieve proportionate standards, taking into account the

downside that this reduction in datapoints would cause in terms of additional reconciliations and complementary data demands that listed SMEs may face from investors.

25. Finally, ESMA also recommends that EFRAG makes available as educational material a mapping tool to assess the degree of commonalities and differences between ISSB and GRI standards.

Question 4: Do you agree with this approach taken on entity-specific disclosure?

26. ESMA generally supports the approach in the ED to entity-specific disclosures. As a matter of fact, the use of entity-specific disclosures should address very specific and rather residual circumstances which were not anticipated by the standard-setter due to specific circumstances of the issuer or emerging issues which were not catered for during the standards-setting process. In this respect, the approach proposed seems to be proportionate as it is meant to cater for rather specific cases.
27. ESMA notes that for both the ESRS Set 1 and the ESRS for listed SMEs it is important to develop guidance on the use of entity-specific disclosures to avoid the risk that this category of disclosures results in lack of comparability of issuers' reporting.

Question 5: Do you agree with the approach on materiality?

28. ESMA generally agrees with the approach to materiality proposed in the ED which is generally aligned with that in the ESRS Set 1 even though with some caveats in relation to the disclosure of cases in which non-material information is identified.
29. ESMA addresses the issue of disclosures associated with the materiality approach separately in response to questions in Part B of the questionnaire.

Question 6: Do you agree with this approach taken on phase-ins?

30. ESMA generally supports the proposed approach to the phase-in.
31. However, ESMA notes that the proposed reliefs for listed SMEs are not fully dynamic, as they are targeted at listed SMEs which will adopt the standard in 2026 or to SMEs which will not be able to use the opt out period. For undertakings which will use the opt out period entirely or parts thereof, no transitional provisions will be available.
32. In order to encourage SMEs to publish sustainability statements in combination with the use of the opt-out period allowed by the CSRD, ESMA suggests that EFRAG

considers whether to make these reliefs (or a selection thereof) dynamic also for SMEs that will decide to benefit from the opt-out period or parts thereof in a way that allows for the use of the transitional provisions proportionately to the number of years of relief already benefitted from by that SME (for example, an SME that decides to make use of the opt out clause could still take benefit for 1 year – instead of the original three years – of the transitional provision that allows for qualitative disclosure of anticipated financial effects).

Question 7: Do you agree that the threshold of 50 employees should be applied to all undertakings in scope?

33. ESMA generally supports the proposed reduction of the threshold for the applicability of some of the reliefs.

Question 8: Do you agree with the “report if you have” approach?

34. ESMA notes that the "report if you have" approach is perceived as almost identical to the standard approach in the ESRS Set 1 for disclosures relating to policies, actions and targets. This approach has been extended also to disclosures on climate transition plans, due diligence procedures and processes related to engagement with affected stakeholders and remediation of negative impacts. The defining feature of this approach seems to be that the issuers would not be required to disclose that they do not have a transition plan, a target or stakeholder engagement procedures. However, for due diligence process an indication of whether or not such process exist shall still be provided, as it is an SFDR datapoint.
35. Accordingly, the degree of simplification that this approach would entail compared to ESRS Set 1 seems to be rather limited and therefore ESMA questions whether it would be appropriate to retain the emphasis on the distinction between this approach and that adopted in ESRS Set 1.
36. Furthermore, ESMA notes that the concept of "report if you have" seems similar to the notion of "if applicable". It is not clear however what the difference is in practice between these two notions and how the proposals to more extensively use the term "report if you have" in the ESRS for listed SMEs compared to ESRS Set 1 will effectively result in a reduction of reporting burden. EFRAG may want to clarify this in the basis for conclusions of the final standard.

Question 9.1: Do you agree with the approach taken by EFRAG on the value chain cap?

37. ESMA generally supports the approach to the value chain cap proposed in the ED. ESMA notes that the notion of direct and indirect business relationships is used in the ED in a way that is equivalent to the ESRS Set 1 with the exception of paragraph 58 of the ED which mirrors the requirements in par. 63 of ESRS Set 1 but excludes the references to "direct and indirect business relationships". It would be helpful to explain the rationale underlying this wording change and its implications.
38. In relation to the value chain requirements, ESMA notes that the ED proposes the explicit inclusion of exposures to risks and impacts stemming from an undertaking's subsidiaries. While this approach seems appropriate to capture material information, we note that the ESRS Set 1 does not specifically include the same requirement. ESMA notes that, while the approach proposed in the ED would be more complex to supervise by authorities and to implement by SMEs than a consolidated sustainability statement, this is a reasonable solution given that the CSRD does not require consolidated reporting for small groups.
39. In practice, this may be of little relevance because listed SME subsidiaries would be captured through the consolidated reporting of large groups. However, some may argue that the standard for listed SMEs is more demanding on this specific point compared to the ESRS Set 1 and therefore we encourage EFRAG to further explain this fact in the basis for conclusions of the final draft standard.

Question 10: Which of the options presented below should EFRAG follow to support SMEs in addressing and reporting their sector specific IROs? Note that EFRAG is developing sector-specific standard for large undertakings. [PLEASE SELECT ONE]

- 1. Undertakings applying ESRS LSME ED should apply on a voluntary basis existing reporting practices, without specific EFRAG guidance.**
- 2. Undertakings applying ESRS LSME ED should apply, on a voluntary basis, the content of the future Sector ESRS for large undertakings.**
- 3. Undertakings applying ESRS LSME ED should apply on a voluntary basis sector specific guidelines and disclosures designed for listed SMEs, to be issued by EFRAG as a non-authoritative annex to the future sector-ESRS.**
- 4. Undertakings applying ESRS LSME ED should apply on a voluntary basis sector specific guidelines and disclosures applicable to both listed and non-listed SMEs, to be issued by EFRAG as a nonauthoritative annex to the future sector-ESRS.**

Please provide your comments, if any.

40. In relation to this question, ESMA provides only a preliminary indication of preference as a clear answer can only be provided once the first set of sector-specific standards becomes available.
41. In principle, depending on their complexity the voluntary application of the sector-specific standards (option 2) could be a viable option unless the future requirements will involve a level of sophistication that will be assessed as excessive for listed SMEs. In this latter case ad-hoc guidelines would be preferred (options 3 and 4).
42. One additional consideration pertains to the fact that the introduction of sector-specific requirements may be a way to help listed SMEs simplify their materiality assessment and therefore it will be important to envisage, as already proposed in par. AR.5 of the ED, an explicit link between the SME-specific requirements and the future sector-specific ESRS which SMEs could use in case they deem it necessary to incorporate sector-specific disclosures to improve the quality of their reporting.

Part B:

B.1) Section 1: General Requirements

Question 11: Please indicate your agreement or not in the accompanying Table with the proposed approach to simplify the general requirements, as included in Section 1 of ESRS LSME ED

43. ESMA is on the whole in agreement with the proposed approach to simplify the general requirements. In particular, the simplified criteria to judge materiality of a possible future event enable a proportionate approach for listed SMEs' reporting on this important sustainability information.
44. In relation to the Impacts, Risks and Opportunities, we commented in the response to Question 1 (Part A) on the proposed removal of positive impacts and opportunities. Should they be kept as voluntary disclosures in the listed SME standard, ESMA's suggestion would be to nonetheless keep them in brackets throughout Section 1 as a way to ensure more standardised disclosures when voluntarily provided by the undertaking.

Question 12: If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

45. Regarding general requirements related to materiality, ESMA supports keeping in the LSME standard the same requirement as in ESRS Set 1 based on which when climate change is not deemed material, undertakings shall explain that conclusion. In a proportionality effort, ESMA would however suggest deleting the requirement in the final sentence of Section 1 par. 33 regarding the forward-looking analysis of the conditions under which climate could become material in the future.
46. Regarding upstream and downstream value chain information needs, ESMA welcomes the new voluntary disclosure requirement introduced in Section 1 par. 66, which acknowledges that obtaining value chain information can be particularly challenging for a listed SME. More details could be provided on the "*clear indications that material impacts and risks are not addressed appropriately*", including situations of qualified opinions of the auditor.
47. Furthermore, ESMA notes that it would be helpful that a listed SME be required to specify whether one or more large undertakings have a particularly relevant or even predominant place in its upstream or downstream value chain so to influence their policies, actions and targets, as this would support users' and enforcers' visibility of how sustainability matters are interrelated across value chains. A possible way to require this information would be as part of the proposed disclosure requirement SBM-2 and specified in the related AR guidance.

B.2) Section 2: General disclosures

Question 13: Please indicate your agreement or not in the accompanying Table with the proposed approach to simplify ESRS Set 1 ESRS 1 General Disclosures as included in Section 2 of ESRS LSME ED

48. DR-4 (GOV 2): The disclosure requirement on due diligence is one of the "*report if you have*" disclosure requirements. Unlike the other disclosure requirements in this

category, however, the undertaking will also have to report whether or not it has adopted a due diligence process as this is an SFDR datapoint. Meant as a simplification of the standard, the removal of a description of the due diligence process in Section 1 and 2 of the ED as compared to Set 1, could however entail that listed SME undertakings disclose that they have no due diligence process even if they actually implement some of the related constitutive elements. This is because the dropped language explains how the due diligence process is closely intertwined with the disclosure requirements under ESRS.

49. Recognising that the Article 19a (6) of the CSRD states that listed SMEs are required to disclose “*any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts*”, and that these elements are constitutive of a due diligence process, simplified information could be provided in the listed SME standard to help undertakings fully understand the disclosure requirement (especially the datapoint in Section 2 par. 24).
50. DR-6 (SBM 2): As a “*report if you have*” disclosure requirement, DR-6 is only to be reported if the listed SME undertaking engages with its stakeholders to collect their interests and views in relation to its strategy or business model. In the case where such engagement is not conducted, the undertaking does not have to report that it is the case or the reason for it. While it is key to ease the burden of reporting for listed SMEs where possible, more guidance through information in AR could help listed SME undertakings better identify whether they have to report through describing the type of engagements covered. Examples of stakeholders whose interests and views can typically affect the business model and strategy of listed SMEs are local authorities or large companies in their downstream value chain, which exercise influence on their suppliers, including through the implementation of their policies covering their value chain.

Question 15: Would you like to reinsert the “information about the resilience of the undertaking’s strategy”?

51. Disclosure on the resilience of an undertaking’s strategy is of particular interest for users, and especially investors. As such, ESMA’s view is that it should be kept in the listed SME standard. Such disclosure also promotes the view that the sustainability reporting process is an opportunity for strategic reflexion rather than a mere compliance exercise.
52. The disclosure on resilience could however be simplified as compared to Set 1 (for instance through only requiring a qualitative analysis to be conducted, and not a quantitative analysis), to account for the more limited capacity of the listed SME undertakings. Alternatively, the datapoint could become part of the “*report if you have*” information disclosed by the listed SME undertakings. Nevertheless, considering the

complexity that SMEs may encounter in running such analysis, implementation guidance should be developed by EFRAG targeted at SMEs.

Question 16: Do you agree with the approach [on keeping current and anticipated financial effects in SBM-3 as two separate datapoints]?

53. ESMA agrees that different types of information are covered by these two separate datapoints (current and anticipated financial effects) and that it could be detrimental for users of sustainability information to group them under a single datapoint.

B.3) Section 3: Policies, actions and targets

Question 17: Please indicate your agreement or not in the accompanying Table with the proposed approach to simplify ESRS Set 1 disclosure requirements, as included in Section 3 of ESRS LSME ED

Question 18: If you agree with the substance of the requirements of the accompanying table, please provide your suggested improvement, if any (please specify the relevant requirement).

54. ESMA notes that the centralisation of policies, actions and targets seeks to enable an easier understanding by the listed SME undertaking of the disclosure requirements, as compared to ESRS Set 1 where such requirements are split between the cross-cutting and topical standards. ESMA has received feedback from market participants that such centralisation may however create practical difficulties for listed SMEs that usually approach this reporting with a topical lens and need to easily identify the relevant Disclosure Requirements for each sustainability matter (for example, it may be less practical to merge disclosure requirements on biodiversity and water-related issues).

55. Furthermore, ESMA notes that if the proposed approach to centralisation is retained, for this approach to meet its stated objectives, the Application Requirements in Section 3 should be more structured as they currently include a mix of reporting obligations, voluntary reporting elements as well as guidance. This combination may make the requirements more difficult for preparers to navigate upon first implementation and for users to identify what information they can expect to see in the sustainability statements.

56. Regarding targets, which are a “*report if you have*” disclosure requirement, ESMA’s view’s is that, a disclosure requirement on whether the listed SME undertaking has adopted climate targets would not create a significant additional burden, while it would provide more clarity for the users of the sustainability statement. In addition, the removal of definitions, methodology or guidance, either in relation to the climate targets

in Section 3, or in Section 4, while improving the readability of the standard, may create a risk of lower quality of the disclosures. More guidance on net-zero targets (for example, by adding a definition in the glossary), to ensure that they are defined in the same way as in Set 1, would particularly be beneficial.

57. In addition, while Section 3 AR1. allows information on policies and actions to be included in a centralised section, this option is not reflected in the structure of the sustainability statement (Appendix D of section 1). Further guidance on the offered options could be useful.

58. Finally, ESMA agrees with the centralised disclosure of the processes attached to social topics under policies and actions.

B.4) Section 4: Environment

Question 19: Please indicate your agreement or not in the accompanying Table with the proposed approach to simplify ESRS Set 1 disclosure requirements, as included in Section 4 of ESRS LSME ED

Question 20: If you agree with the substance of the requirements of the accompanying table, please provide your suggested improvement, if any (please specify the relevant requirement).

59. As mentioned above, fewer definitions and methodological details in AR may lead to reduced guidance for the listed SME undertakings. A balance should be struck between simplification and providing sufficient guidance for undertakings which are not used to sustainability reporting.

60. In relation to DR E1-3 on GHG removals, deletion of the GHG removal projects in the value chain could impact the ability of listed SME undertakings to report in a comparable way on their contribution to GHG removals.

Question 21: In your view as SNCI or investor, should this ED anticipate detailed guidance on disclosure breakdown for financed emissions?

Question 22: Do you agree with the SNCIs having the option to use the proposed approach that allows the use of different metrics (rather than net revenues) to determine GHG emission intensity and water intensity?

61. ESMA concurs that allowing deviations is appropriate at this stage considering the development of the financial sector standard. To enable maximum comparability, these disclosures should be specifically considered when approving the disclosure regime of listed SME undertakings regarding sector specific standards.

B.5) Section 5: Social

Question 23: Please indicate your agreement or not in the accompanying Table with the proposed approach to simplify ESRS Set 1 disclosure requirements, as included in Section 5 of ESRS LSME ED

Question 24: If you agree with the substance of the requirements of the table above, please provide your suggested improvement, if any (please specify the relevant requirement).

62. ESMA is generally in agreement with the simplifications proposed in relation to the social standards. We would however suggest to carefully consider whether these simplifications always reflect the way listed SMEs currently monitor the related information. For instance, they may have management systems at site level which do not differentiate the different types of workers (employees, non-employees, other workers).